

Initial Coin Offerings

How to Make Millions with Initial Coin Offerings

<https://www.youtube.com/watch?v=dkzeJrdKDJk>



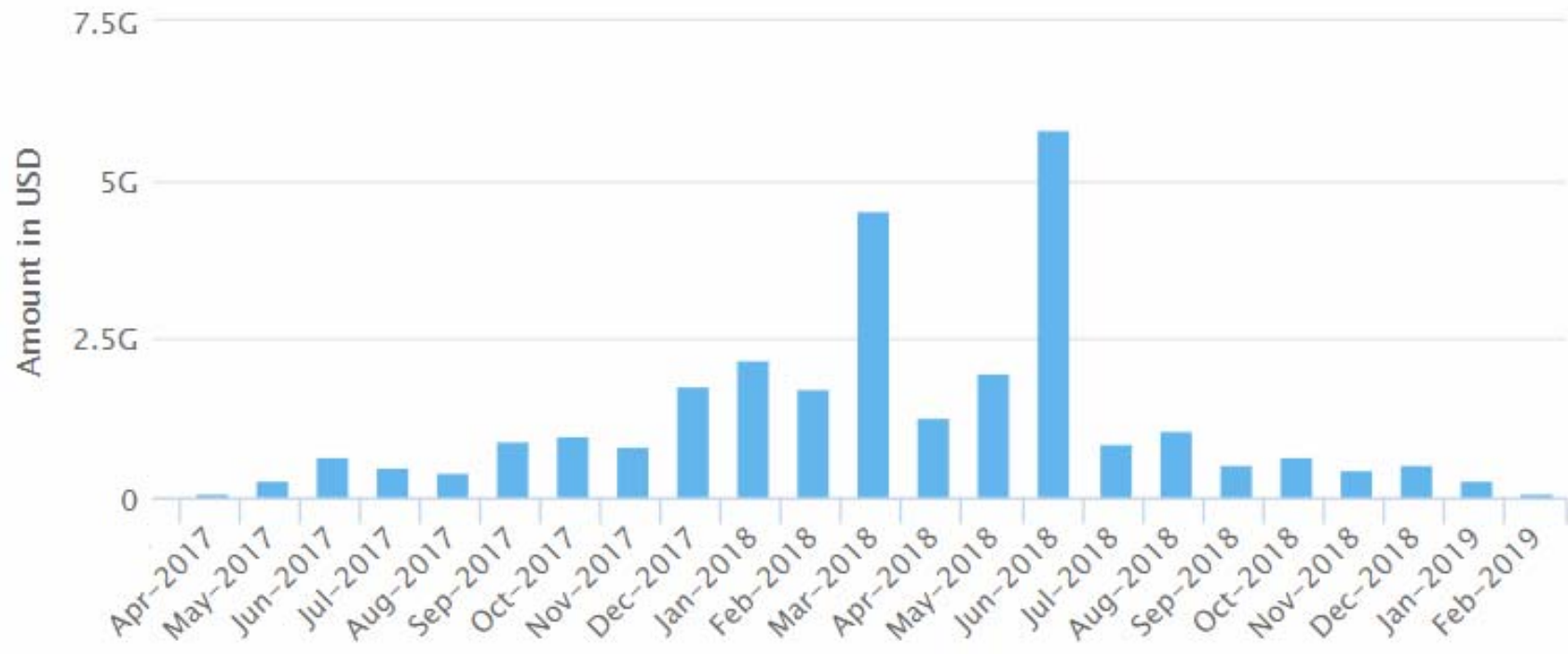
What is a “coin”?

What is a “token”?

- This is extremely unclear.
 - Most “initial coin offerings” are actually sales of *tokens*, not *coins*.
- Three types of tokens seem to circulate
 1. Utility tokens
 2. Security tokens for underlying assets (e.g. gold)
 3. Investment schemes / scams

ICOs in 2017-19

\$28 billion raised



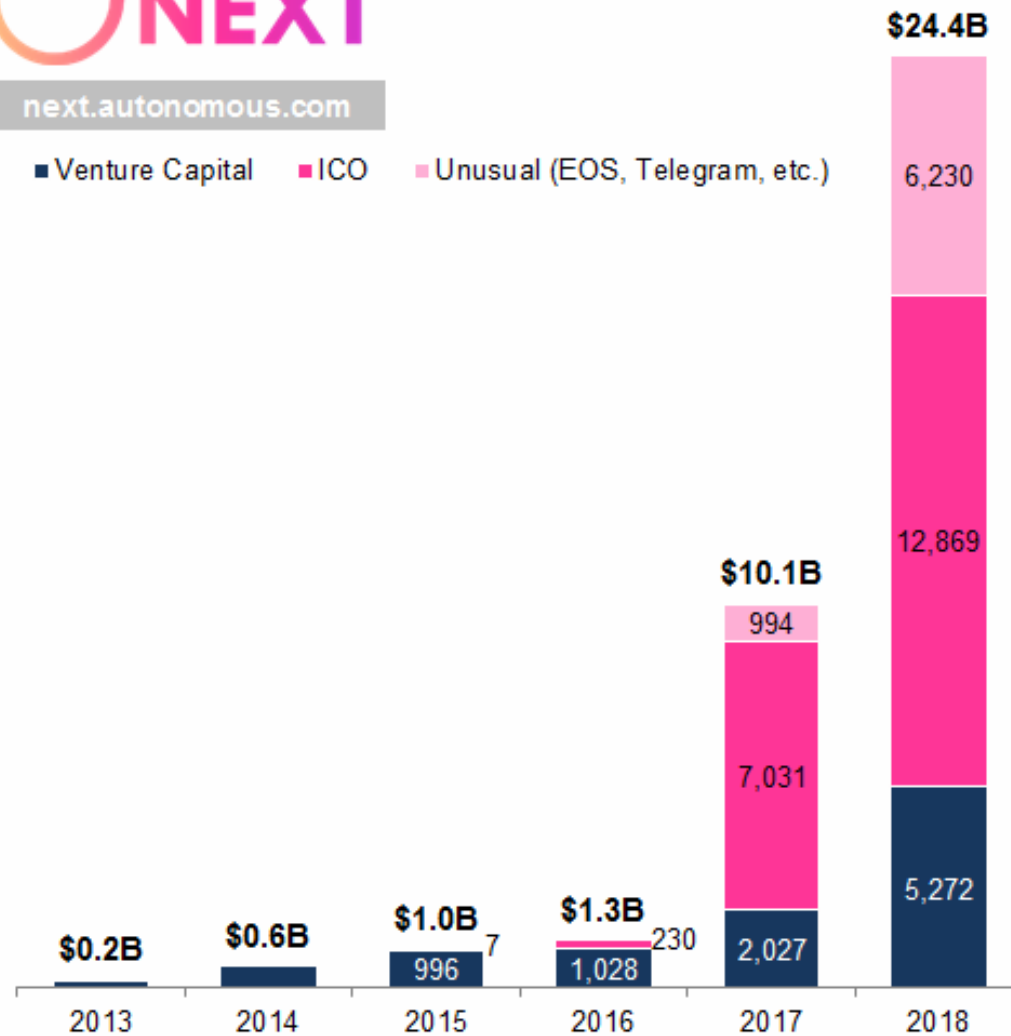
Source: www.coinschedule.com

Investment in Crypto-Economy (\$mm)



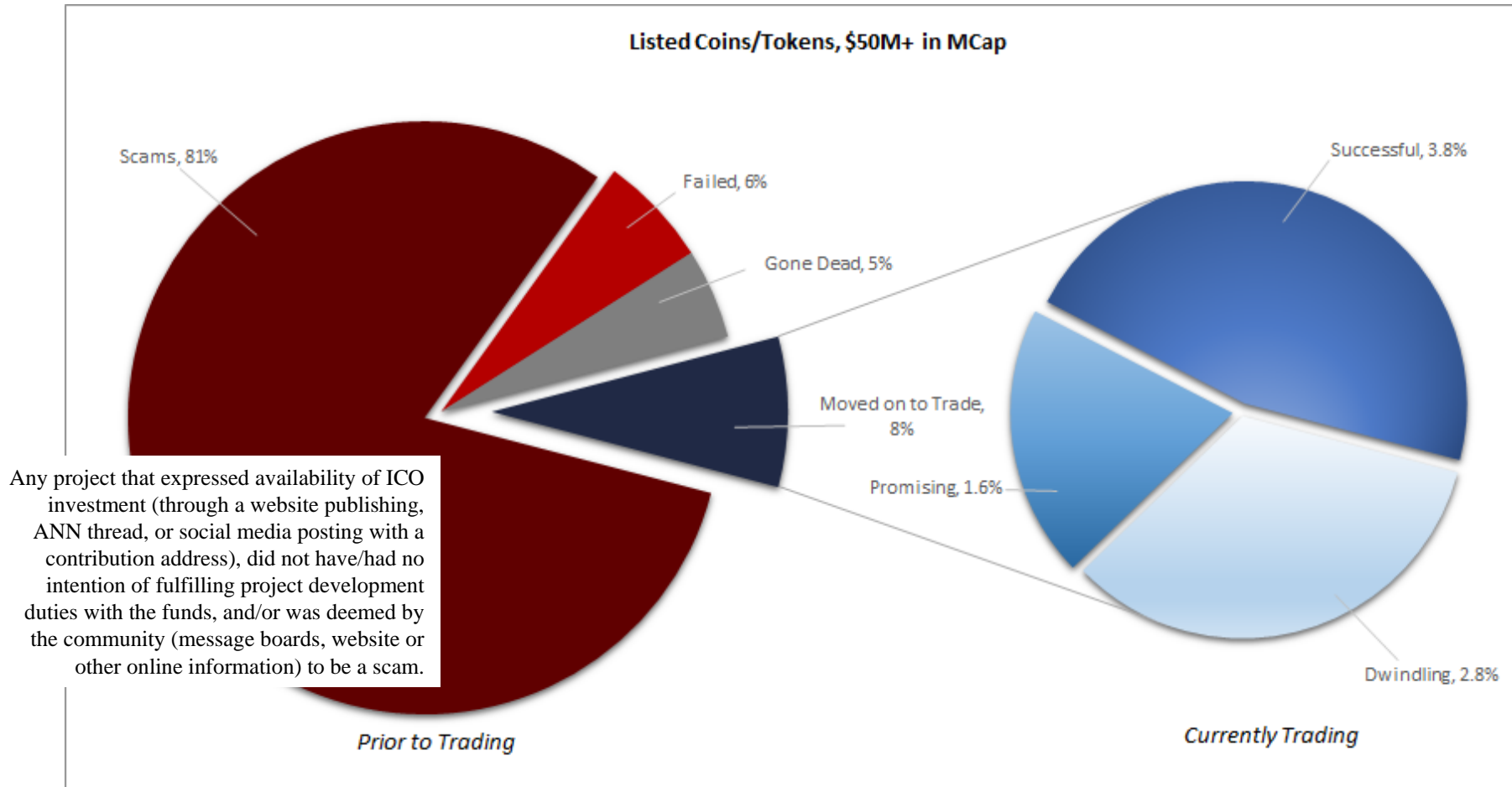
next.autonomous.com

■ Venture Capital ■ ICO ■ Unusual (EOS, Telegram, etc.)



Sources: Various for ICOs, Pitchbook for VC, EOS Scan for EOS

ICO outcomes (broadly viewed)



Source: <https://medium.com/satis-group/ico-quality-development-trading-e4fef28df04f>

Largest ICOs by amount raised

• Block.one (EOS)	\$4.1 billion
• Telegram Open Network	\$1.7 billion
• Dragon Coin	\$320 million
• Huobi	\$300 million
• Hdac	\$258 million
• Filecoin	\$257 million
• Tezos	\$232 million
• Sirin Labs	\$158 million
• Bancor	\$153 million
• TheDAO	\$152 million

Block.one's \$4 billion ICO

May 2018



MARKETS INVESTING TECH

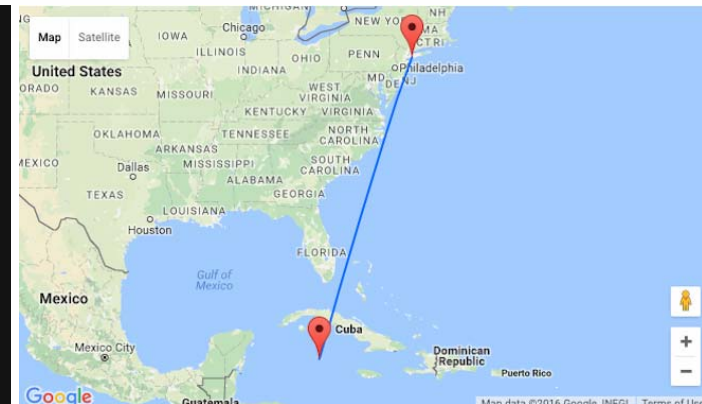
A blockchain start-up just raised \$4 billion without a live product

- Cayman Islands start-up Block.one raised \$4 billion as of Thursday, eclipsing the world's biggest initial public offerings this year and more than doubling the next biggest offering of that type.
- But its product doesn't fully launch until June 1 and investors don't know how the majority of that capital will be used.
- "They have set the bar very high for themselves in terms of delivery expectations," says William Mougayar, managing partner at JM3 Capital and author of "The Business Blockchain."



Brendan Blumer, CEO, Block.One

Source: Block.one



>13% have live products

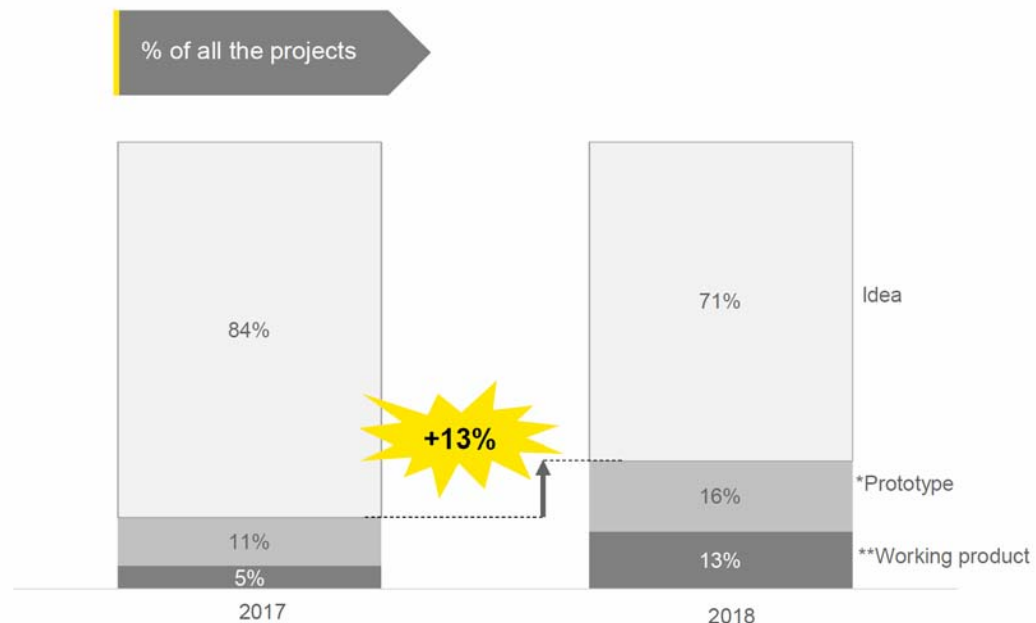
About a year after raising money, only a small portion of ICO-funded start-ups have progressed towards working product offerings.

Our survey found companies that have made meaningful progress toward working products only increased by **13%** in 2018. **71%** have no offering in the market at all.

Typically, within one year of a traditional venture-backed software start-up, you would expect to see a significantly higher percentage of the companies with a functional early stage product.



Source: EY analysis of 86 projects based on their public sites and 2017 whitepapers

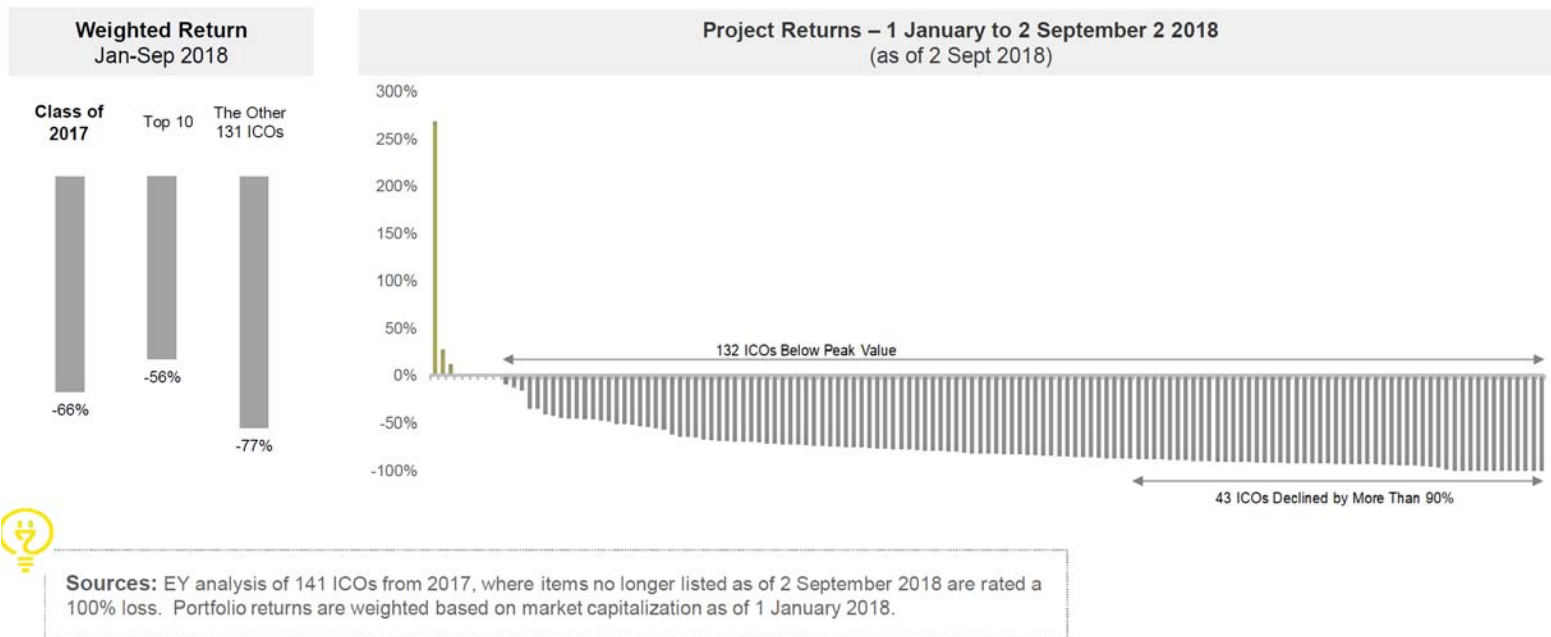


* Defined as the beginning phase of product development, provides testing models and validation.

** Defined as the beginning of product sales.

How does this compare with entrepreneurial finance generally?

The Class of 2017 today: 86% below listing price, 30% lost substantially all their value. This ICO portfolio is down around 66% from the peak.



What is an ICO?

Filecoin, launched by Protocol Labs

Introducing Filecoin, a decentralized storage network



How does Filecoin work?

- Filecoin plans to provide *decentralized storage*, using a global network of computers with available space
- Customers will pay for storage
- Storage nodes will bid to host files and earn tokens
- Miners will earn tokens for validating files via a “proof of space” algorithm
- The Filecoin “token” will be the only means of payment

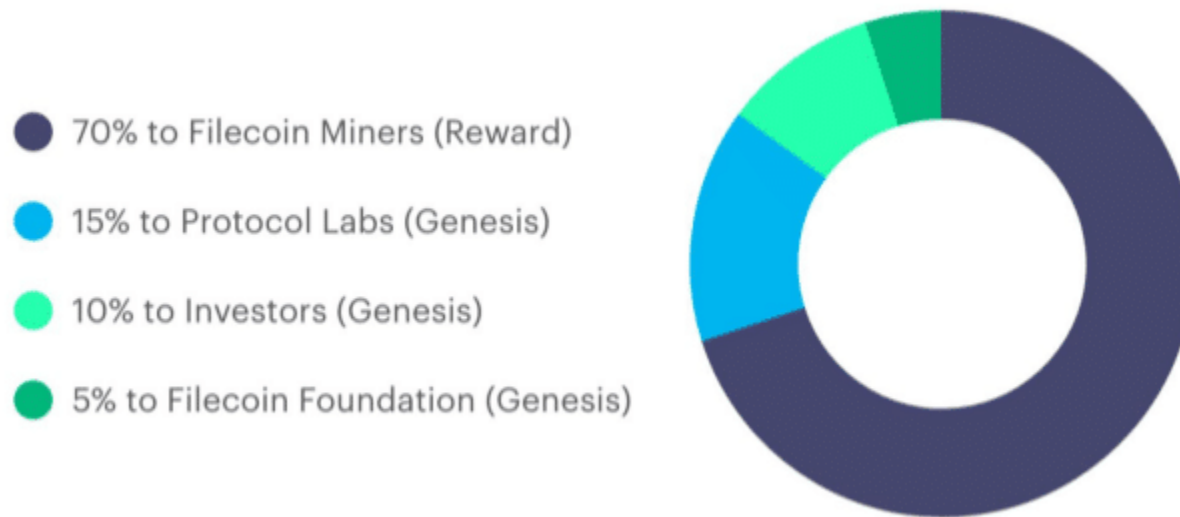
Why doesn't Filecoin use regular currency?

See, e.g., Catalini and Gans (2018)

- Co-opts customers through “network effects”
 - Similar to frequent flyer loyalty programs
 - Incentives to recruit other users
- Reveals consumer demand prior to undertaking costly investment
- Allows customers to share in the value created by the application
 - Equity holders retain ownership of the underlying platform

Allocation of Filecoin tokens

10% sold for more than \$200 mm



Filecoin's ICO

- *Pre-sale* on 1 August 2017 to 150 strategic investors, raising \$52 million
 - Price = \$0.75 per coin, but discounted to an average of \$0.57 for investors who agree to vesting lockups.
- *Public sale*, 1 August to 7 September 2017, to c. 2,000 investors, raising \$154 million
 - Price = \$1.00 per coin initially, incrementing \$1.00 for every \$40 million raised
 - \$135 million in first hour
- Discounts for vesting delays
- Payment in either USD, ETH, BTC or ZEC
- As 20 April 2019, Filecoin futures are trading at \$5.30

Outcome of Filecoin's ICO

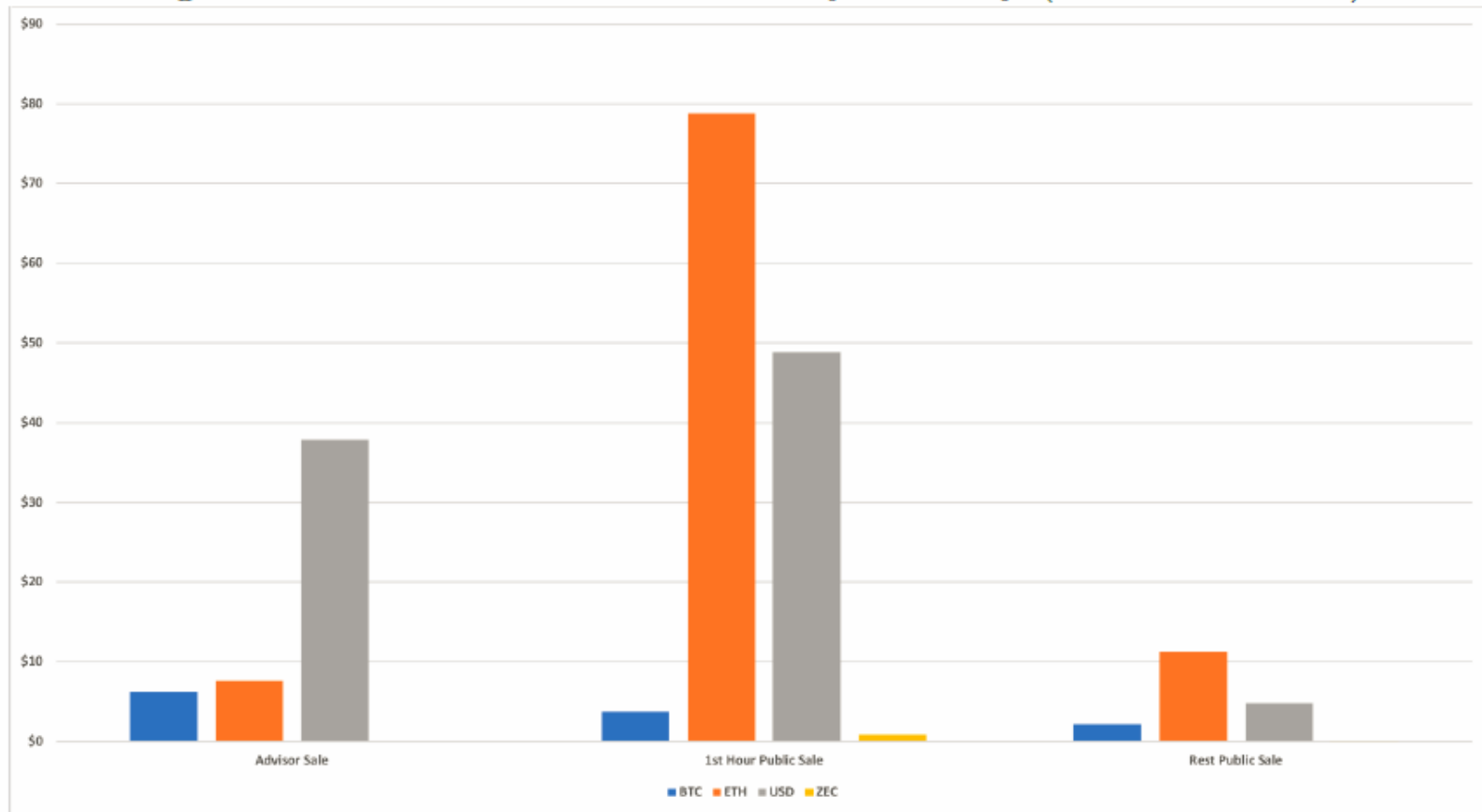
	Num Transactions	Avg. num FIL per transaction	Avg USD per transaction	Median USD per transaction	Avg. USD/FIL
Advisor Sale (Pre-sale)	210	430,554	\$246,217	\$49,356	\$0.57
1st Hour of Public Sale	1,690	33,005	\$80,255	\$10,000	\$2.43
Rest of Public Sale	1,167	3,474	\$16,000	\$3,480	\$4.61

	Avg. Investment USD
Core team	\$40,835
Angel and VC investors	\$1,786,440
Others	\$276,760

Pre-sale bidders paid in \$USD

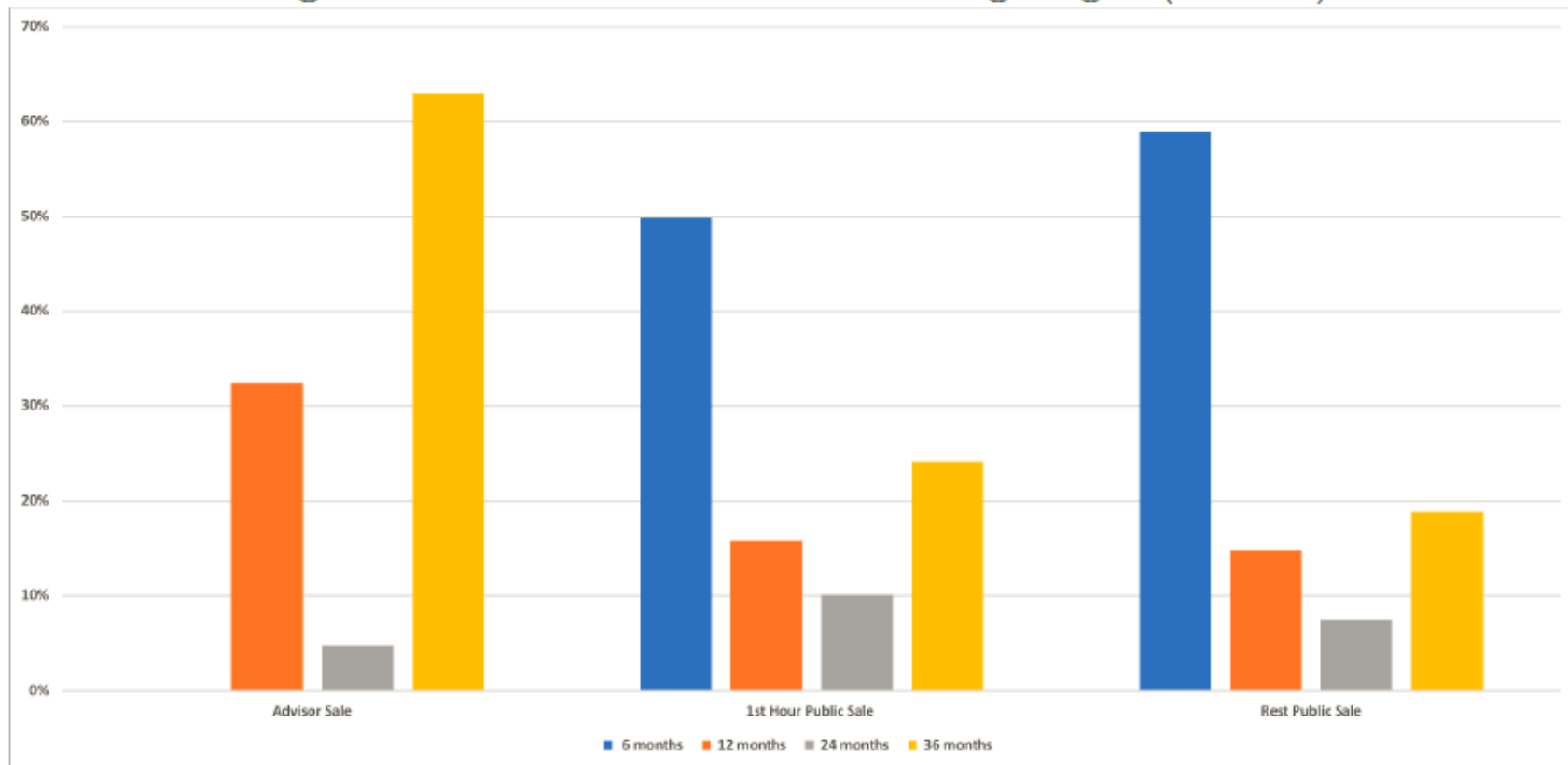
Public bidders paid in ETH

Figure 2: Filecoin ICO investments by currency (millions of USD)



Pre-sale bidders took long lockups; Public bidders wanted liquidity

Figure 3: Filecoin ICO investor vesting length (months)



Precursors of tokens: Online gaming



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Precursors of tokens: Social media



QQ: China's New Coin of the Realm?

Officials Try to Crack Down As Fake Online Currency Is Traded for Real Money

By Geoffrey A. Fowler and Juying Qin

Updated March 30, 2007 12:01 a.m. ET

HONG KONG -- China's fastest-rising currency isn't the yuan. It's the QQ coin -- online play money created by marketers to sell such things as virtual flowers for instant-message buddies, cellphone ringtones and magical swords for online games.

In recent weeks, the QQ coin's real-world value has risen as much as 70%.

It's the most extreme case of a so-called virtual currency blurring the boundaries between the online and real worlds -- and challenging legal limits. A Chinese Internet company called Tencent Holdings Ltd. designed the payment system in 2002 to allow its 233 million regular registered users to shop for treats in its virtual world. Virtual currencies are in use in many countries -- but nowhere have they taken root more deeply than in China.

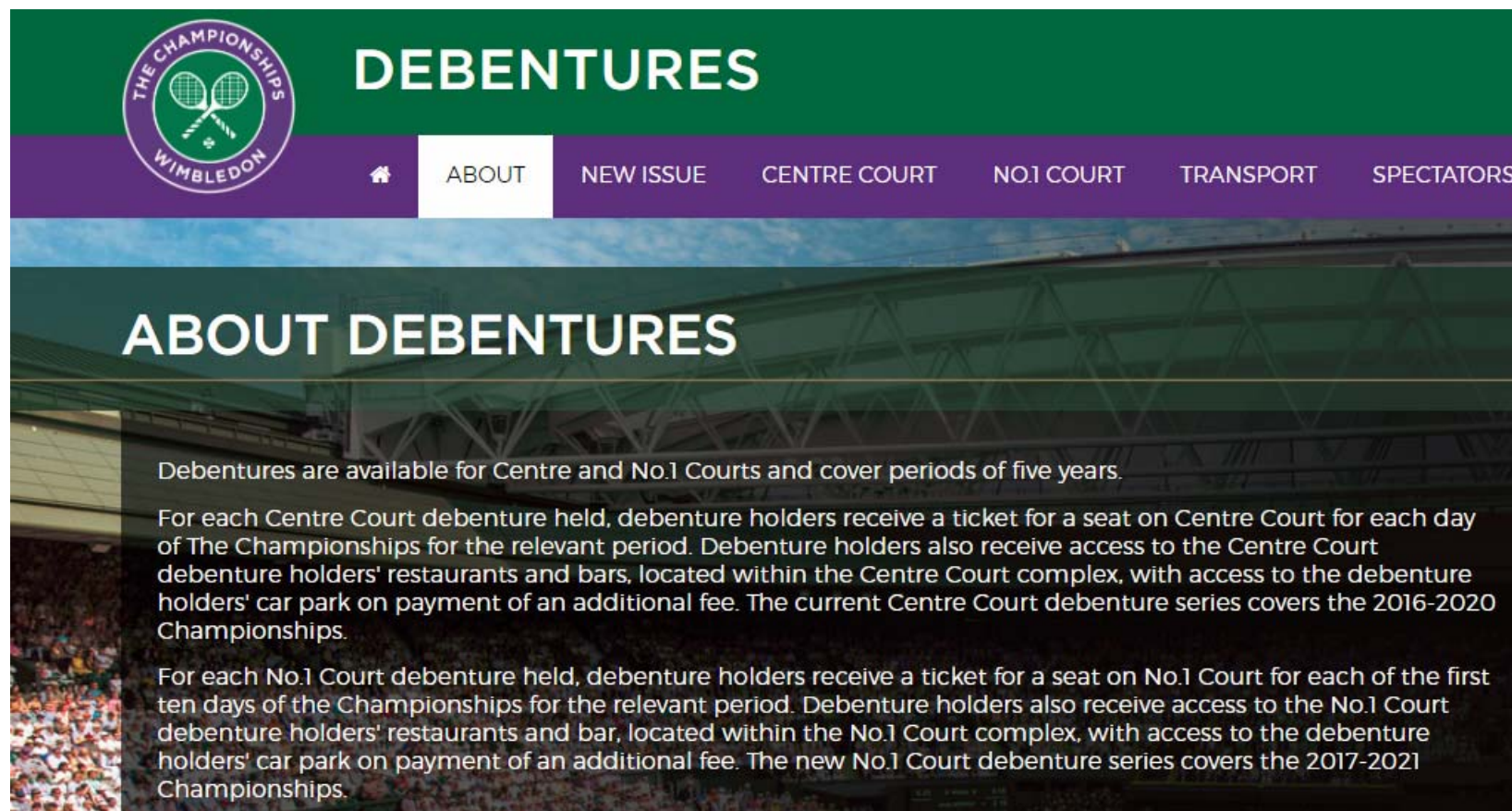
Precursors of tokens:


Sports arena PSLs



Wimbledon debentures

Five-year PSLs issued since 1920

The image is a screenshot of the Wimbledon Debentures website. At the top, there is a green header with the Wimbledon logo on the left and the word "DEBENTURES" in white capital letters. Below the header is a purple navigation bar with a home icon and links to "ABOUT", "NEW ISSUE", "CENTRE COURT", "NO.1 COURT", "TRANSPORT", and "SPECTATORS". The "ABOUT" link is highlighted. The main content area has a background image of the Wimbledon stadium. The heading "ABOUT DEBENTURES" is in large white letters. Below this, there are three paragraphs of text. The first paragraph states that debentures are available for Centre and No.1 Courts and cover periods of five years. The second paragraph describes the benefits of a Centre Court debenture, including access to Centre Court, restaurants, bars, and a car park. The third paragraph describes the benefits of a No.1 Court debenture, including access to No.1 Court, restaurants, bars, and a car park. The text is in white and is set against a dark background.

 **DEBENTURES**

[ABOUT](#) [NEW ISSUE](#) [CENTRE COURT](#) [NO.1 COURT](#) [TRANSPORT](#) [SPECTATORS](#)

ABOUT DEBENTURES

Debentures are available for Centre and No.1 Courts and cover periods of five years.

For each Centre Court debenture held, debenture holders receive a ticket for a seat on Centre Court for each day of The Championships for the relevant period. Debenture holders also receive access to the Centre Court debenture holders' restaurants and bars, located within the Centre Court complex, with access to the debenture holders' car park on payment of an additional fee. The current Centre Court debenture series covers the 2016-2020 Championships.

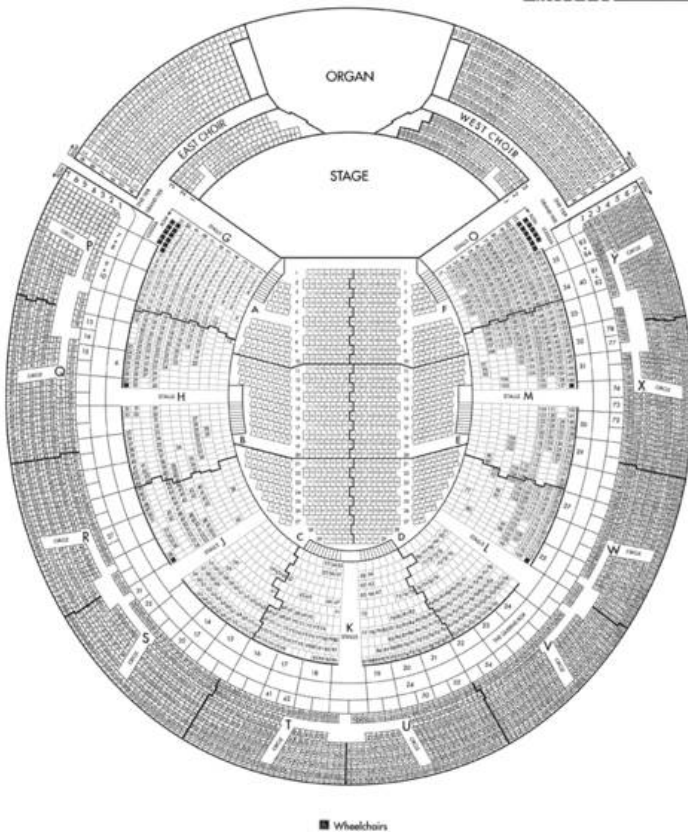
For each No.1 Court debenture held, debenture holders receive a ticket for a seat on No.1 Court for each of the first ten days of the Championships for the relevant period. Debenture holders also receive access to the No.1 Court debenture holders' restaurants and bar, located within the No.1 Court complex, with access to the debenture holders' car park on payment of an additional fee. The new No.1 Court debenture series covers the 2017-2021 Championships.



Royal Albert Hall

Constructed 1867-1871

Ordinary Let



“Known as Members of the Corporation (or Seatholders), these original founders acquired seats. . .

These arrangements continue to this day – currently the Members own 1,270 seats out of the Hall’s 5,272. . .

By acquiring permanent seats at the Hall the Seatholders have private property rights (personal estate, not real estate) which can be given or sold by one party to another. . . The charity exists subject to these permanent private property rights.”

- www.royalalberthall.com

Jay Clayton and ICOs



Mon, 11 June 2018

SEC chief says agency won't change securities laws to cater to cryptocurrencies



The head of the Securities and Exchange Commission made it clear Wednesday that the agency won't bend the rules for cryptocurrency when it comes to defining what is or what isn't a security.

"We are not going to do any violence to the traditional definition of a security that has worked for a long time," U.S. [Securities and Exchange Commission](#) Chairman Jay Clayton told CNBC Wednesday. "We've been doing this a long time, there's no need to change the definition."

Clayton said the U.S. has built a \$19 trillion securities market that's "the envy of the world" following the current rules.

Two major regulatory issues with ICOs

1. Are ICOs covered by the securities laws?

- Of which country?
- Why is this important?
 - Disclosure – cost of filing
 - Disclosure – release of competitive information
 - Potential liability, including for third parties

“I believe every
ICO I’ve seen is
a security”



2. What are the tax consequences?

The Crypto Valley

Vitalik Buterin founded Ethereum in Zug; hundreds have followed

The
Economist

Tales from the crypto-nation

A banking centre seeks to reinvent itself

Switzerland embraces digital currencies and crypto-entrepreneurs



Most ICOs (74%) reside on the Ethereum blockchain

- Ethereum provides a basic “ERC20” token template that can be customized by an issuer
- An ERC20 token is really an Ethereum “smart contract” that can be activated by a future instruction or contingency
- Once launched, an ERC20 token’s rules cannot be changed, and its supply cannot be increased

Participating in an ICO

- A purchaser places an order by sending ether (or sometimes bitcoin) to a digital wallet established by the issuer
- If an order is accepted, the tokens are sent to the wallet of the purchaser. Otherwise, the ether bid is returned.
- If oversubscribed, *acceptance hinges on including a large enough fee to the miner* as an incentive to include the order immediately in a new block on the Ethereum blockchain
 - Some token distributions have occurred *pro rata* among all bidders, and some have occurred by auction to the highest bidder.
 - Ethereum's block cycle time is c. 12 seconds, meaning that some token sales are concluded very quickly

Method of distribution

- Had a pre-sale 45%
- Dynamic pricing 34%
- Auction pricing 5%
- Accepted ETH 66%
- Accepted BTC 41%
- Accepted LTC 9%
- Accepted USD 10%
- Accepted EUR 3%

Bonding and disclosure

- Twitter page 97%
- Website 92%
- Telegram group 83%
- White paper 81%
 - Budget for use of proceeds 57%
- **Source code posted on Github 66%**
- Lock-up period for founder 36%
- VC-backed 11%